

Message Text

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ACTION STR-08

INFO OCT-01 EA-11 ADP-00 COME-00 EB-11 AID-20 NSC-10

RSC-01 CIEP-02 TRSE-00 SS-15 OMB-01 CEA-02 CIAE-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

INT-08 L-03 H-02 PA-03 PRS-01 USIA-12 TAR-02 RSR-01

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FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 4044

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E. O. 11652: N/ A

TAGS: EIND, ETRD, JA

SUBJECT: JAPANESE IMPORTS OF FERROUS SCRAP

REF: STATE 087295

SUMMARY: AFTER HEARING CONTENTS REFTEL, MITI OFFICIAL TOOK UNDER CONSIDERATION EMBASSY' S REQUEST THAT GOJ PURCHASERS SPREAD OUT PURCHASES MORE EVENLY; THE SAME OFFICIAL PREDICTED THAT JAPANESE IMPORTS OF FERROUS SCRAP SHOULD DECREASE " SIGNIFICANTLY" IN SECOND HALF OF 1972. LATER, WATANABE INFORMED EMBASSY " GUIDANCE" TO BE EXTENDED TO IMPORTERS, HOPEFULLY WITHIN WEEK. END SUMMARY

1. EMBASSY OFFICER EXPLAINED ON FRIDAY CONTENTS REFTEL CONCERNING JAPANESE DOMESTIC SCRAP PURCHASE PATTERNS TO OSAMU WATANABE, DEPUTY DIRECTOR OF IRON AND STEEL ADMINISTRATION DIVISION (MITI), WHO MADE FOLLOWING POINTS:

(A) LARGE JAPANESE PURCHASES OF STEEL SCRAP IN FIRST HALF OF 1973 NECESSARY BECAUSE SHORTAGE OF PIG IRON. CERTAIN BLAST FURNACES HAD NOT BEEN FIRED BECAUSE OF DEPRESSED STATE OF JAPANESE STEEL
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INDUSTRY. SINCE IT REQUIRES THREE TO SIX MONTHS TO HAVE FULL PRODUCTION OF A BLAST FURNACE, PREVIOUSLY IDLING BLAST FURNACES WILL NOT BE IN FULL OPERATION UNTIL JUNE. NIPPON KOKAN'S NEW BLAST FURNACE IN FUKUYAMA WILL ALSO BE AVAILABLE FROM OCTOBER.

(B) THE SECOND CURRENCY REALIGNMENT AND THE OFFFLOATING OF THE YEN PRODUCED UNCERTAINTY AMONG JAPANESE SCRAP PURCHASERS WHO TEMPORARILY STOPPED BUYING IN FEBRUARY AND MARCH BECAUSE OF "PSYCHOLOGICAL UNCERTAINTY" AND EXPECTATION OF BUSINESS RECESSION. THIS CAUSED SOME BUNCH PURCHASING PRESSURE.

(C) IN THE SECOND HALF OF THE YEAR FROM JULY, DEMAND FOR SCRAP MAY BE EXPECTED TO DROP GREATLY. THE GOVERNMENT IS FOLLOWING A TIGHTER MONEY POLICY AND IT IS ANTICIPATED THAT THIS WILL BE STRENGTHENED FURTHER. PUBLIC CONSTRUCTION SCHEDULED FOR SECOND HALF OF THIS YEAR WILL ALSO BE SCALED DOWN.

2. WATANABE SAID IT WOULD BE DIFFICULT TO PREDICT WHAT THE FUTURE DEMAND FOR SCRAP STEEL MAY BE BECAUSE OF THE NEED TO TAKE INTO CONSIDERATION THE EFFECTS OF TIGHT MONEY POLICIES NOT YET IMPLEMENTED. RELUCTANTLY, AND AS A PERSONAL OPINION ONLY, WATANABE STATED THAT DEMAND MAY BE 50 PERCENT LESS IN THE SECOND HALF. HE ADDED THAT BY THE END OF THIS MONTH HE SHOULD HAVE AVAILABLE AN OFFICIAL ROUGH ESTIMATE OF SECOND HALF IMPORT REQUIREMENTS.

3. WATANABE TERMED THIS YEAR AS "VERY PARTICULAR CASE" IN WHICH SCRAP PURCHASES WERE ALL MADE AT THE SAME TIME. CONCERNING THE REQUEST THAT JAPANESE PURCHASERS HAVE POINTED OUT TO THEM POSSIBLE ADVERSE EFFECTS TO CONTINUED BUNCH BUYING, AND THE NEED TO HAVE A 10-12 PERCENT RANGE OF MONTHLY PURCHASES, WATANABE SAID THAT THIS MUST BE FIRST DISCUSSED WITHIN THE GOVERNMENT, THAT HE DID NOT HAVE THE AUTHORITY TO MAKE A DECISION AT THIS TIME, AND WOULD INFORM THE EMBASSY AT LATER TIME OF THE GOJ'S RESPONSE. HE DID MENTION THAT IN THE PAST THE GOVERNMENT HAD GUIDELINED STEEL SCRAP PURCHASES FOR ORDERLY MARKETING.

4. WATANABE CAUTIONED THE EFFECTS OF A DISCUSSION ON POSSIBLE U. S. EMBARGO MIGHT INCREASE SPECULATIVE PURCHASES. THE REPORTING OFFICER REITERATED THAT THERE WAS LITTLE LIKELIHOOD OF AN EMBARGO IF THERE WERE "ORDERLY PURCHASING" AND IF WATANABE'S LIMITED OFFICIAL USE

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PREDICTIONS ABOUT JAPANESE IMPORTS IN THE SECOND HALF WERE TRUE. THE REPORTING OFFICER ALSO STRESSED THAT BUYING PATTERNS WERE THE IMPORTANT CONSIDERATION, AND NOT VOLUME.

5. IN RESPONSE TO A QUESTION CONCERNING NEWSPAPER REPORTS THAT RECENT INCREASES IN PRICES OF DOMESTIC SCRAP IN JAPAN MAY LEAD TO GREATER PRESSURE TO IMPORT, WATANABE MENTIONED THAT HE WAS TO

MEET

WITH STEEL COMPANIES AND TRADING FIRM REPRESENTATIVES IN CHARGE OF
SCRAP PURCHASES LATER THAT AFTERNOON TO DISCUSS THAT PROBLEM
AMONG
OTHERS.

6. IN A FOLLOW- UP TELEPHONE CALL ON TUESDAY, WATANABLE INFORMED
EMBASSY THAT MITI WOULD EXTEND " GUIDANCE" TO IMPORTERS TO PREVENT
" CORNER" PURCHASING AND " IRREGULAR MOVEMENTS", HOPEFULLY WITHIN
THIS WEEK. WATANABE SAID THAT THE " PRACTICAL METHOD" FOR IM-
PLEMENTING GUIDANCE WAS BEING " STUDIED" WITH ALL HASTE AND THAT
HE WOULD INFORM EMBASSY BEFORE IT WAS PUT INTO EFFECT.
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